



Focus on the Fisc

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

FOCUS POINTS

Revenue Estimating Conference (REC)

12/13/2012 Meeting

Greg Albrecht, Chief Economist

The Revenue Estimating Conference (REC) met on Thursday, 12/13/2012 and reduced revenue forecasts for the current fiscal year (FY 13) and subsequent fiscal years (FY 14 – FY 17). The state general fund (SGF) forecast reduction for FY 13 was \$129.2 M, and \$207.1 M for FY 14 budget construction. The FY 13 official forecast now projects a \$91.7 M (1.1%) absolute drop in revenue from actual FY 12 collections. While in all years the baseline is reduced, year-over-year growth projections are still positive; beginning modestly at 2.8% for FY 14 and 2.4% for FY 15, before accelerating to 3.8% for FY 16 and 4.7% for FY 17.

With respect to largely SGF revenues, significant downgrades were made to the general sales tax (\$173.9 M), the personal income tax (\$49 M), royalty receipts (\$64.6 M), general fund earnings (\$25 M), and severance tax (\$10.3 M). Sales tax failed to gain traction all last year and has not done so yet this fiscal year. Household and business spending continues to be cautious, and employment and income performance has resulted in only sluggish personal income tax collections. Mineral revenue is overstated as natural gas prices have stayed subdued and oil prices have stabilized. Finally, declining investable balances combined with historically low interest rates have pushed general fund earnings down significantly.

The one area of upward general fund revision was corporate tax collections. The conference adopted a \$184.1 M higher forecast for this tax. The FY 12 finish for corporate was strong and collections performance has been better so far this year. However, caution is advised here due to the volatile nature of this tax and the fact that one-half (1/2) to two-thirds (2/3) is typically collected in the last 3 months of the fiscal year. Another material improvement (\$16.9 M) was made to Lottery transfers for calendar year 2012, financing FY 13. This was due to 3 high jackpot games this year and a large transfer of reserves by the Lottery Corporation. Projections fall back to their historical norm without abnormal jackpots and reserve transfers for the out years. Finally, vehicle license tax projections were increased by \$20.6 M; all of which will flow into various dedications of this revenue.

After the easy growth comparisons of the first recovery year FY 11 over the trough year of FY 10 (8.3% growth), revenue growth nearly stalled out in FY 12 (3.8% growth, but only 1.4% without late-year surprise corporate and GOZone bond repayment receipts). So far this year, the outlook is for an absolute contraction (-1.1%) before modest but sustained growth returns. While the state is reportedly better off than other states in certain economic metrics, that relatively better performance has not yet translated into sustained state tax revenue growth.

FY 13 Mid-Year Reductions

Travis McIlwain, General Govt. Section Director

At the 12/14/2012 Joint Legislative Committee on the Budget (JLCB) meeting, the committee was notified by the administration of a \$165.5 M current fiscal year budget deficit. On the same day, the committee notified the governor that a projected deficit exists as provided in R.S. 39:75(B). The commissioner of administration presented to the committee the administration's plan for eliminating this deficit. The Legislative Fiscal Office (LFO) is in the process of gathering additional information and analyzing these reductions as to the impact to the state. The LFO will provide a detailed report concerning these current year reductions in January.

Act 597 Payback to the Budget Stabilization Fund

Greg Albrecht, Chief Economist

Act 597 of 2012 requires the Revenue Estimating Conference (REC) to promulgate FY 12 actual revenue collections. The treasurer is directed to deposit into the Budget Stabilization Replenishment Fund (newly created by Act 597) the difference between actual collections and those officially forecast for FY 12 on 4/24/2012, up to a maximum of \$204.7 M. The treasurer is then directed to transfer these funds into the Budget Stabilization Fund. This language effectively pays back any unnecessary amount that was withdrawn late in the fiscal year to support the FY 12 budget (in response to the April 24 REC forecast downgrade).

Relative to the April 24 forecast for FY 12, SGF revenue collections were \$203.8 M greater than expected. After an adjustment for a portion utilized in the FY 12 budget (\$78.3 M), \$125.5 M of these excess collections are subject to the payback provisions of Act 597. To date, the REC has not yet addressed this issue. Should the REC promulgate the FY 12 actual revenue collections, the treasurer would

deposit this amount into the Replenishment Fund and then transfer it into the Budget Stabilization Fund.

Should these funds be transferred into the Budget Stabilization Fund, they cannot be withdrawn unless the constitutional triggers for use of the Fund are met; a reduction in the current fiscal year forecast or a forecast for the next fiscal year that is lower than the forecast for the current fiscal year.

Should these funds not be transferred into the Budget Stabilization Fund, they would presumably become part of the FY 12 surplus balance (estimated at the October meeting of the Joint Legislative Committee on the Budget to be \$143.3 M). Traditionally, the REC recognizes and designates surplus balances as nonrecurring revenue. Funds so designated become subject to the constitutional provisions for use of officially designated nonrecurring money: 25% to Budget Stabilization Fund, and various forms of debt retirement and capital outlay.

The administration has indicated that it wants to use \$94 M of these excess collections to help resolve the current fiscal year federal Medicaid funding problem that impacted the FY 13 budget shortly after its enactment. These competing claims have not yet been resolved.

EDUCATION

Funding for Education Programs Found Unconstitutional

Mary K. Drago, Education Section Director

On Friday 11/30/2012, 19th Judicial District Judge Tim Kelley ruled that Act 2 and the Minimum Foundation Program (MFP) resolution (SCR 99) unconstitutionally divert MFP and local funds that are mandated to be allocated to public elementary and secondary schools to nonpublic entities. Act 2 of 2012 provides for the expansion of the Student Scholarship for Educational Excellence Program, sometimes referred to as the scholarship program or voucher program and creates the Course Choice Program. The MFP resolution (SCR 99) provides funding for those programs. The state plans to appeal the ruling.

The Student Scholarship for Educational Excellence Program was previously funded by a state appropriation. The program is now funded through the MFP. The average scholarship amount is approximately \$5,300, and the total tuition amount to be paid on all of the students' behalf is \$25,342,680. The state and local share of the total tuition amount is

calculated based upon each district's per pupil allocation determined in the MFP formula. The state's share of this amount is calculated to be \$12,342,389 and the local share is calculated to be \$13,000,291.

Act 2 also enacted the Course Choice Program, which will begin in the 2013-14 school year. The program allows entities such as online education providers, postsecondary education institutions, and corporations that offer vocational or technical course work to provide courses to eligible K-12 students (BESE approved course 45 providers on December 5th). The program was to be funded using MFP funds allocated to the eligible student's school district to pay the course providers for educational courses provided to students.

If the ruling is not overturned, the state will have to fund these programs from other sources outside of the MFP.

Reorganization of the LSU System

Charley Rome, Fiscal Analyst

The LSU Board of Supervisors (BOS) is evaluating the future structure, leadership, and function of LSU and contracted with the Association of Governing Boards of Universities & Colleges (AGB) to study the matter. AGB prepared reports for the board that considered many factors including consolidation of the LSU System into "one campus" with one chief executive officer for all campuses in the system.

In response to the AGB report, the LSU BOS approved a resolution combining the positions of the LSU System President and LSU A&M Chancellor. In response to criticism of the board's action, the State Attorney General issued an opinion stating that the LSU BOS failed to provide sufficient public notice of their intent to vote on the merger of these positions. As such, the board reconsidered merging these positions on 12/7/2012 and voted to eliminate the LSU A&M Chancellor position. The board assigned the Chancellor's duties to the LSU System President beginning with the appointment of LSU's next System President.

The Southern Association of Colleges & Schools (SACS) wrote a letter to LSU raising concerns relative to LSU's accreditation as a result of merging the LSU System President and the LSU A&M Chancellor. LSU responded to SACS stating that the LSU System President and LSU A&M Chancellor have separate duties and responsibilities carried out by Dr. Jenkins in a combined role.

In November 2012 the LSU BOS adopted a motion describing guiding goals and principles for realigning and reorganizing LSU. The board also

voted to form a transition team appointed by Dr. Jenkins to facilitate planning of the realignment of LSU. The transition team's first meeting will be held on 12/19/2012.

GENERAL GOVERNMENT

Act 597 Action Not Materialized

Travis McIlwain, General Govt. Section Director

Act 597 (Funds Bill) enacted during the 2012 Legislative Session played a prominent role in crafting the FY 13 operating budget and the FY 12 budget (FY 12 Supplemental Appropriations Bill). This legislative instrument provided for the transfer of approximately \$379.1 M of various resources into the SGF, LA Medical Assistance Trust Fund (MATF) or the Overcollections Fund for expenditure in either FY 12 or FY 13. *However, to date there are approximately \$303.7 M of funds bill resources that have not been transferred to the SGF, MATF or Overcollections Fund that have been appropriated in FY 12 & FY 13.* Thus, approximately \$75.3 M of the \$379.1 M has been transferred to date.

Act 597 transfers approximately \$258.5 M from various resources into the SGF. *To date, approximately \$42.4 M (or 16%) of resources have been transferred into the SGF for expenditure.* Some of the significant funding items not transferred include: \$56 M - Risk Management's Self Insurance Fund; \$10 M - proceeds from NOAH sale; \$27.25 M - proceeds from 6 Average Wholesale Price (AWP) legal settlements; \$78.3 M - bond repayments; and \$9.9 M - FEMA reimbursements.

Act 597 transfers approximately \$79.5 M from various resources into the MATF. *To date, approximately \$26.8 M (34%) of resources have been transferred into the MATF for expenditure.* Some of the significant funding items not transferred include: Ernest Morial Exhibition Hall Authority (\$20 M); bond repayments (\$25.9 M); and various fund transfers (\$6.7 M).

Act 597 directs the state treasurer to transfer:

1) \$41.1 M into the Overcollections Fund. *To date, approximately \$6.1 M (15%) of resources have been transferred into the Overcollections Fund for expenditure. The significant funding items not transferred include \$35 M for the sale/lease of NOAH.*

2) Proceeds from the sale of the former DOI building site, excess receipts over \$10 M from FEMA reimbursements and excess receipts over \$56 M from the Self Insurance Fund. *These additional items are not currently included in the FY 13 operating budget.*

Closure of Phelps Correctional Center

Stephanie Blanchard, Fiscal Analyst

The closing of Phelps Correctional Center (PCC) in DeQuincy on November 1 will result in a net reduction of 169 authorized positions and estimated net savings of \$2.6 M in FY 13 and \$10.7 M in FY 14. The net savings includes: 1) estimated one-time funding for termination pay and unemployment benefits (\$2.8 M) in FY 13; and 2) recurring funding related to the transfer of 942 offenders to a previously closed camp and dorms at LA State Penitentiary (\$1,857,514 and 79 positions); the transfer of the Prison Enterprises garment factory to Elayn Hunt Correctional Center (\$120,000 and 4 positions); and additional funding for David Wade Correction Center to implement the Prison Elimination Act (\$276,796 and 12 positions).

All funding and positions associated with the closure of PCC are being transferred through BA-7 pursuant to Act 13 of 2012 which states that the number of authorized positions may be increased by the Commissioner of Administration when sufficient documentation of other necessary adjustments is presented, and the request is deemed valid.

Bayou Corne Sinkhole

Evelyn McWilliams, Fiscal Analyst

As of 12/7/2012, the state has incurred approximately \$5.5 M in expenses associated with the Bayou Corne sinkhole incident. The approximate amount incurred by each state agency is as follows: Department of Natural Resources \$4.4 M; Department of Environmental Quality \$0.6 M; Public Safety Services (State Police and Liquefied Petroleum Gas) \$0.2 M; Wildlife & Fisheries \$0.1 M; Military \$60,000; Homeland Security \$40,000; and DHH Office of Public Health \$90,000.

Approximately \$4 M of the expenditures for the Department of Natural Resources (DNR) is associated with a contract with the Shaw Environmental Group. The Shaw Group (including its subcontractors) is responsible for planning, testing and drilling activities to determine the cause of the sinkhole. To date, the Shaw Group has submitted invoices requesting payment of approximately \$600,000 of its obligated expenses. The DNR also incurred slightly more than \$400,000 in personnel expenses and approximately \$230,000 in expenses with other contractors responsible for drilling wells and performing testing activities at the Bayou Corne sinkhole.

Reimbursable expenditures incurred by Public Safety Services, Military, Homeland Security and the departments of Environmental Quality and Wildlife

& Fisheries are for personnel costs (salaries and related benefits), travel and operating services such as fuel and supplies.

On 11/8/2012, the Attorney General's Office sent a bill to Texas Brine, the company responsible for the sinkhole incident, requesting payment of \$3.5 M for expenditures incurred by the state due to the sinkhole incident. In a follow-up letter Texas Brine requested the state provide it a detailed accounting of the costs incurred by the state. The Attorney General Office is in the process of compiling the requested information.

Office of Group Benefits (OGB)

Travis McIlwain, General Govt. Section Director

On 11/9/2012 the House Appropriations and Senate Finance committees approved the Office of Group Benefits' third-party administrator (TPA) contract with Blue Cross Blue Shield. As testified in committee, the DOA anticipates total net savings of approximately \$20 M, while the LFO calculates the savings to range from \$11 M to \$18.3 M.

Although the anticipated result of this approved TPA is administrative savings, school boards, state agencies and employees will only realize a savings if the OGB Board/Commissioner of Administration actually reduces premiums. At this point in the FY 14 budget development process, OGB's premiums will remain constant when it starts its new plan year on 1/1/2013. Due to premiums remaining constant, any administrative costs savings realized as a result of the new TPA will remain in OGB's fund balance and will not actually be realized by school boards, state agencies and employees.

Hurricane Isaac – 25% State Match

Travis McIlwain, General Govt. Section Director

The Governor's Office of Homeland Security & Emergency Preparedness (GOHSEP) estimates the total (federal & state share) costs to be approximately \$161.6 M of which the state will be responsible for 25% (state match), or approximately \$40.4 M.

The federal resources associated with this event are paid on a reimbursable basis. At the time of the event, state agencies expend existing funding for emergency response expenditures and then submit a request for reimbursement to FEMA through GOHSEP for the federal portion. State agencies are currently completing the necessary project work-sheets (PW) in order to receive the federal reimbursement.

The commissioner of administration approved a BA-7 request that appropriated the remaining fund

balance of the State Emergency Response Fund (SERF). Thus, the total SERF appropriated in the DOA's FY 13 budget is \$17,491,175. These resources will likely be utilized to reimburse a portion of the state match requirement of Hurricane Isaac. Although the Military Department and Workforce Commission have had BA-7s approved by JLCB for increased IAT budget authority in order to receive SERF funds from the DOA for their state match portion, to date the DOA has not transferred such resources.

To the extent all \$17.5 M in SERF resources currently appropriated in the DOA current budget are utilized for the storm's state match, the state will still have to find another \$23 M of resources or state agencies will likely have to absorb these costs.

Crescent City Connection Vote (11/6/2012)

Alan Boxberger, Fiscal Analyst

On the November 6th election ballot, voters in Jefferson, Orleans and Plaquemines parishes were asked to determine whether toll collections should continue on the Crescent City Connection Bridge (CCCB) through 2033. The ballot measure passed by a thin margin of 16 votes from a total of nearly 309,000 ballots. Act 865 of 2012 will become effective 1/1/2013, extending toll collections, providing for policing of the bridge and surrounding arteries and creating new statutory dedications earmarked for specific purposes.

Toll collections are estimated at approximately \$20.9 M annually. Of this total, the first \$10 M will be deposited annually into the Crescent City Connection Capital Projects Fund subject to legislative appropriation for debt service, pay-as-you-go projects, or to match federal project funds. The balance of funds shall be deposited in the Crescent City Connection Toll Fund, to be used subject to legislative appropriation for the operations, maintenance and policing of bridge operations.

The Department of Public Safety & Corrections, Public Safety Services (DPS), shall have the responsibility to provide police functions on the CCCB and along US 90-Z between Interstate 10 and US 90, at a cost not to exceed \$2 M annually. The Department of Transportation & Development (DOTD) shall have the responsibility to maintain and light the bridge, in addition to providing toll collections, motorist assistance patrols and administering capitol projects. DOTD is authorized to privatize operations, maintenance and collection of tolls. The New Orleans Regional Planning Commission (NORPC) is designated as an advisory body with regard to the collection of tolls and prioritization of capitol projects.

DOTD and DPS are currently meeting with NORPC to develop and finalize plans for bridge, police and maintenance operations. A final plan is expected in the near future that will more fully detail department plans for operations and the feasibility of privatizing certain activities. Once the plans are finalized, the departments will require budget adjustments or supplemental appropriations as the FY 13 appropriation only funded ½ year of operations.

On 12/18/2012, opponents of the Crescent City Connection toll renewal filed a lawsuit at the 19th JCD challenging the results of the November 6th election.

Sale of Former DOI Building Site

Travis McIlwain, General Govt. Section Director

Act 597 (HB 822 – Funds Bill) of 2012 provides for proceeds generated from the sale of the DOI's former building site be transferred into the Overcollections Fund. Although Act 597 does not specify an amount, the original version of HB 822 assumed approximately \$5 M generated from the sale. *These resources were not built into the FY 13 budget, thus if the state does not sell the property, there would be no FY 13 budgetary impact.* However, to the extent the state does sell this site, the proceeds would likely be deposited into the Overcollections Fund for legislative appropriation either in the FY 13 supplemental appropriations bill or the FY 14 appropriations bill (HB 1) during the upcoming legislative session.

To date, the Division of Administration (DOA) has had 2 appraisals completed with valuations ranging from \$2.8 M to \$4.9 M. (August 2012 – Cook Moore & Associates \$2.825 M and January 2012 – Sharon Pruitt \$4.865 M).

The Joint Natural Resources Committee must grant the DOA the ability to sell the property. The meeting to consider this issue was originally scheduled for 11/9/2012, but was canceled. This meeting has not been rescheduled.

LA Public Defender Board Treasury Seed Request Update

Travis McIlwain, General Govt. Section Director

At the September 2012 Joint Legislative Committee on the Budget (JLCB) meeting, the committee approved a BA-7 request in the amount of \$250,000 for the LA Public Defender Board for Sexual Offender Assessment Panel (SOAP) cases from the LA Public Defender Fund. Due to the original source of revenue for this fund being SGF deposited annually, there are actually not enough resources available within the fund to fund this request. Thus, the agency and the

DOA have requested a \$250,000 treasury seed to be paid back via "excess" SGF.

To the extent that those SGF resources are utilized elsewhere during FY 13 and there are no additional FY 13 SGF resources recognized during the fiscal year by the Revenue Estimating Conference (REC), the DOA anticipates reducing other FY 13 SGF resources in other areas of the FY 13 operating budget in order to fully fund these case expenditures. At this time, it is unknown as to what specific FY 13 SGF resources may be reduced.

To date, the State Treasury has received the treasury seed request from the DOA and the LA Public Defender Board, but has not approved the treasury seed request.

Public Service Commission Suit Against the State

Deborah Vivien, Economist/Fiscal Analyst

In June 2010, the Public Service Commission (PSC) filed suit against the LA Legislature and the Administration claiming that the state unconstitutionally swept the accrued balances of the funds of the PSC in the amount of \$8.5 M (\$4 M in 2009 and \$4.5 M in 2010) and placed the money in the general fund for use in any area of state government. The PSC contends that those balances were the proceeds from industry-specific fees (in particular, inspection and utility fees, motor carrier registration fees and telephonic solicitation registration fees) collected under the auspices that the fees were to be used in the regulation and enforcement of industry standards. In transferring these fees to the SGF, the PSC contends that the state treated them as a general tax, which is prevented by the Constitution. The Legislature indicates that the fund balance sweep was an allowable use of these funds. If the PSC is successful in this effort, the state could eventually be required to return hundreds of millions of dollars to these and similar funds that have been swept over the years.

The Attorney General filed exceptions to the case in 19th Judicial District State Court which the PSC opposed. On 2/2/2011, the court ruled that the state did not violate the Constitution in sweeping the funds for use in the general operating budget. The PSC filed an appeal with the 1st Circuit and argued on 11/9/2012 with the judgment currently pending. Either side may appeal this ruling to the State Supreme Court. Regardless of the final outcome of the case, any budgetary impact is expected to be delayed beyond the current budget year due to the appeals process.

Both the state (represented by the Attorney General) and the PSC are using in-house attorneys so there is

no additional administrative cost to the state as a result of this case.

The Balance of the LA Mega-Project Development Fund

Deborah Vivien, Economist/Fiscal Analyst

After all appropriations from the fund are considered, along with the addition of accrued interest, the LA Mega-Project Development Fund (MegaFund) balance is \$28,431,982 as of 12/4/2012. However, the Department of Economic Development has announced 2 new projects, Benteler Steel and Sasol, Ltd., that appear to be eligible for MegaFund dollars, neither of which has a confirmed cooperative endeavor agreement ready for signature.

Benteler Steel is expected to build a seamless steel tube mill and a steel mill at the Port of Bossier-Caddo creating 675 new direct jobs in exchange for local and state cash and infrastructure incentives of \$90 - \$100 M plus FastStart training and other program incentives such as Quality Jobs and the industrial Tax Exemption.

Sasol Ltd. will invest \$16 B to \$21 B and create 1,235 new direct jobs in Westlake, LA near Lake Charles by expanding their existing facility. According to the news release, the state will commit to \$135 M in cash and infrastructure incentives, FastStart training, and other programs such as Quality Jobs, Competitive Projects Payroll Incentive and the Industrial Tax Exemption. Obviously, either of these projects would exhaust the remainder of the MegaFund and require additional funding, though neither the fiscal year timing of the impacts nor exact amounts of the incentives are certain since the agreements are not yet finalized or approved by the legislature.

HEALTH & HOSPITALS

Medicaid Outlook

Shawn Hotstream, Health & Hospital Section Director

For FY 13, a portion of the recurring Medicaid budget is financed with approximately \$219.9 M in revenue sources that likely will need to be replaced with other means of finance in FY 14. The significant one-time funding sources are as follows:

1) \$218,342,753 in Statutory Dedication funding deposited into the Medical Assistance Trust Fund (MATF) that is appropriated in the Private Providers Program. These revenues are used as a state match source to draw federal financial participation in order

to pay Medicaid claims. MATF deposits in FY 13 include revenue from Go Zone Bond Repayments, the Earnest Morial Memorial Exhibition Hall Authority, Average Wholesale Price legal settlements, various fund transfers, and various revenues from the FY 12 MATF funds that were “freed-up” and appropriated in FY 13.

2) \$1,651,166 in revenue from the New Opportunities Waiver (NOW) Fund appropriated in the Medical Vendor Administration Program in FY 13. Act 481 of 2007 created the NOW Fund, and approximately \$50 M of one-time surplus revenues was deposited into the NOW Fund in FY 09.

LSU Hospital Reductions & Partnerships

Jennifer Katzman, Fiscal Analyst

In FY 13, a federally mandated Medicaid FMAP reduction resulted in a shortfall of approximately \$859 M to the Department of Health & Hospitals (DHH). As a result, DHH implemented a 10% Medicaid rate reduction (\$4.3 M SGF match) and a \$122.6 M state match cut to LSU’s Uncompensated Care Costs (UCC) allocation (\$126.9 M SGF total). This equates to a loss of \$202.4 M in federal match, representing an overall reduction of \$329.3 M to the LSU public hospital system.

The two LSU systems, LSU-Health Sciences Center (HSC) in Shreveport and the Health Care Services Division (HCSD), implemented the reductions separately. HCSD’s allocated share of the \$126.9 M in SGF cut is \$85.1 M, and LSU-HSC’s allocation is \$41.8 M. As a result of the cut, LSU has tentative plans to eliminate 224 vacancies from LSU-HSC and approximately 1,500 positions from HCSD. Based on its initial budget reduction scenario, HCSD will reduce services at all hospitals and the number of inpatient and emergency beds from 449 to 303 with the position reductions. In order to partially offset the total funding reductions allocated to the hospitals, LSU is utilizing one-time money such as cash reserves, and HCSD intends to partner with community and private providers to fill the service gap created by hospital bed and service reductions. As of 12/10/2012 there are 3 Memorandums of Understanding (MOU) for public and private collaboration. Ochsner and Terrebonne General Medical Center will partner with Leonard J. Chabert Medical Center, Lafayette General will partner with University Medical Center in Lafayette, and LA Children’s Medical Center in New Orleans will partner with the LSU Interim Hospital in New Orleans.

The LSU Board of Supervisors (BOS) initially planned to issue requests for proposals (RFPs) to find private entities to partner in the operation of LSU-S,

EAC, and HPL. However, due to time constraints, LSU opted to utilize the LSU Health Sciences Foundation to formulate public/private partnerships for the north LA hospitals.

FY 13 Medicaid Revenue Shortfall

Shawn Hotstream, Health & Hospital Section Director

A provision of the federal transportation bill modified LA's Disaster Recovery Federal Medical Assistance Percentage (FMAP) rate, which resulted in a decrease in federal financial participation by approximately \$859 M for FY 13. The Medicaid budget for Act 13 was initially based on a blended FMAP of 71.38% (28.62% state match), however during the state fiscal year (FY 13) the federal formula was adjusted to a blended 66.58% (33.42% state match), which required the Department of Health & Hospitals to solve for this loss of federal funds by implementing over \$859 M in cuts or appropriating an additional state match source to draw down appropriated federal match.

The department has recommend a combination approach, and intends to utilize approximately \$94 M in surplus revenue to close the approximately \$800 M gap in the budget (to the extent these funds are not returned to the Rainy Day Fund). To the extent this \$94 M gap is solved with non-recurring revenues in the current year, the \$94 M represents a SGF need for FY 14.

New Orleans Adolescent Hospital (NOAH)

Jennifer Katzman, Fiscal Analyst

Act 597 directs the state treasurer to transfer \$35 M from the proceeds of the sale of NOAH into the Overcollections Fund for FY 13 expenditures in HCSD. Specifically, the funds will be used to replace SGF utilized for unallowable costs (primarily prisoner care). Act 597 also directs the treasurer to transfer any excess proceeds from the sale into the SGF for general FY 13 state expenditures. However, according to appraisals conducted for the DOA by Argianas & Associates, Inc. and Argote, Derbes, Graham, Shuffield, & Tatje, Inc., the property's market value does not exceed \$20.9 M for the land and improvements thereon, including the hospital.

As directed by Act 867, the DOA intends to enter a long-term lease with Children's Hospital in New Orleans for the property. The parties are still negotiating the terms of the lease agreement, including the term period, payment amount, and whether payments on the lease will be upfront or continuing in subsequent years. To the extent the projected funding does not materialize in FY 13, there will be a \$35 M shortfall in HSCD's budget for the current fiscal year. Depending on the terms of the

lease regarding payment methodology, the \$35 M is potentially one-time funding for FY 13, which will result in the need for a like amount of SGF to replace the statutory dedication beginning in FY 14. However, if there are continuing annual payments under the lease agreement, HCSD could potentially receive these payments through a statutory dedication in lieu of wholly SGF appropriations for unallowable costs in subsequent years.

Southeast LA Hospital (SELH)

Jennifer Katzman, Fiscal Analyst

On 12/3/2012, a cooperative endeavor agreement (CEA) was signed between DHH and Meridian Behavioral Health Service of Gainesville for the continuing operation of SELH in Mandeville beginning 1/2/2013 through 1/1/2016. SELH was originally scheduled to close in FY 13 due to an allocated cut as a result of the federally mandated FMAP reduction. DHH conservatively estimated an initial SGF savings of \$555,893 (\$1.6 M total MOF) as a result of personnel reductions. The LFO is currently researching the future financing structure at SELH and associated payments to Meridian under the CEA to determine the net impact of privatization.

In anticipation of closure, 60 intermediate adult beds were moved to Central LA State Hospital and 34 were moved to Eastern LA Mental Health System in October 2012. Meridian will staff the remaining 58 beds including: 16 acute adult beds, 22 acute adolescent beds (ages 12-17), and 20 adolescent DNP beds (ages 12-17) at SELH. All scheduled layoffs will be completed by 1/2/2013 when Meridian assumes operations. The LFO has requested the number of layoffs after transfers and vacancies are taken into consideration from DHH. As part of the cooperative endeavor agreement, Meridian must interview and consider any current SELH employees for reemployment at SELH.

DCFS Administrative Costs for Hurricane Isaac

Patrice Thomas, Fiscal Analyst

In response to Hurricane Isaac, the Department of Children & Family Services (DCFS) housed 6,353 evacuees in state-run shelters and issued \$103,842,960 in Disaster Supplemental Nutrition Assistance Program (DSNAP) benefits to 263,459 households and 587,618 people in the 21 parishes approved for assistance. As of 12/3/2012, DCFS expended \$30,588,389 SGF to operate the state-run shelters (\$4,452,804) and issue DSNAP benefits (\$26,135,585).

DCFS has submitted Project Worksheets (PWs) to the FEMA Public Assistance Program for reimbursement of \$3,339,603 for shelter expenditures (75% of

\$4,452,804) and \$13,067,793 for DSNAP administrative expenditures (50% of \$26,135,585). After FEMA reimbursements, DCFS will have unanticipated expenditures of \$14,180,993 SGF (\$30,588,389 - \$16,407,396 FEMA reimbursements) over their existing operating budget as a result of Hurricane Isaac expenditures. It is unknown at this time how DCFS will address the unanticipated expenditures before the end of the fiscal year.

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